Calculating the labor cost & selling price

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How to include labor in your final price

- Whether you hire someone or you do it all by yourself, you will have to include the cost of labor in your model, in order to set the final selling price of a cup

- **Calculating the cost of labor:**

  - Estimate how long it takes to make a batch of lemonade
  - Estimate how long it takes to sell that batch of lemonade
  - Estimate how many people walk by the area you're targeting
  - Estimate what percentage of them will stop at your stand and what percentage of them will buy

- We assume that in a good location we can sell 40 cups per hour, for 5 hours a day (which means 200 cups/day), and it also takes 5 hours to make those 200 cups

- Think about the amount of money you'd like to get for one hour of work

- If you want to get $30/hour, and you work for 10 hours a day, you need to get $300 in profits to make the whole business worth it

- Add the unit cost for 200 cups ($0.89*200=$178) to the profit wanted ($178+$300=$478) and divide that by 200 cups to get the price you need to sell a cup for ($478/200=$2.39)

- If you plan for the worst, round that up to $2.50 and that's the final price you will ask for a cup

Price Per Cup	$2.50
Cost Per Cup	$0.89
Desired Profit Per day	$300
Hours Per Day	10
Desired Profit/Hour	$30
Min Cups Sold Per Hour Needed	18.6
Cups Sold Per Min	**0.31**

See you next lecture!